

**DEPARTMENT OF TRANSPORTATION****AUDITS AND INVESTIGATIONS**

1304 O STREET, SUITE 200

P. O. BOX 942874 – MS 2

SACRAMENTO, CA 94274-0001

PHONE (916) 323-7111

FAX (916) 323-7123

TTY: 711



*Flex your power!  
Be energy efficient!*

**—Revised Report—**

June 5, 2008

Gayle Prior, Capital & Grant Program Manager  
Golden Gate Bridge Highway & Transportation District  
Box 9000, Presidio Station  
San Francisco, CA 94129-0601

Re: Golden Gate Bridge Highway & Transportation District  
Audit of Indirect Cost Allocation Plan for FY 06-07  
File No: P1190-0615

Dear Ms. Prior:

We have audited the Golden Gate Bridge Highway & Transportation District (GGBHTD), Engineering Department's Indirect Cost Allocation Plan (ICAP) for the fiscal year ended June 30, 2007 to determine whether the ICAP is presented in accordance with Office of Management and Budget (OMB) Circular A-87 and the Department of Transportation's Local Programs Procedures (LPP) 04-10. The GGBHTD's management is responsible for the fair presentation of the ICAP. The GGBHTD proposed indirect cost rate for the Engineering Department is as follows.

<i>Rate Type</i>	<i>Effective Period</i>	<i>Rate</i>	<i>Applicable To</i>
<b>Department Overhead:</b>	<b>7/01/06 to 6/30/07</b>	<b>119%</b>	<b>Engineering -120</b>
Fixed with carry forward			

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the GGBHTD. Therefore, we did not audit and are not expressing an opinion on the GGBHTD's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by the GGBHTD, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in the OMB Circular A-87 and the Department of Transportation's (Department) LPP 04-10, and is not intended to present the results of operations of the GGBHTD in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a comparison of the ICAP to single audit reports for the fiscal years ended June 30, 2005, and inquiries of GGBHTD personnel. The audit also included tests of individual accounts to the general ledger and supporting documentation to assess allowability, allocability and reasonableness of costs and an assessment of the internal control system as related to the ICAP as of October 23, 2006. Financial management system changes subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our findings and recommendations take into consideration the GGBHTD's response to our draft findings on June 4, 2007. Our findings, recommendations and a summary of GGBHTD's response and our analysis are detailed below. Copies of GGBHTD's responses are attached.

## AUDIT RESULTS

Based on audit work performed, the GGBHTD Engineering Department's ICAP for the fiscal year ended June 30, 2007 is presented in accordance with OMB Circular A-87 and LPP 04-10. The approved indirect cost rate is applied to total direct salaries and wages, plus fringe benefits as follows:

	<u>Fiscal year 2007</u>
Engineering Department	119%

The approval of the GGBHTD Engineering Department rate is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates. GGBHTD calculates the overhead rate based on prior two years actual costs.

Audits & Investigations issued a report dated February 15, 2008. It indicated that we had a pending issue with GGBHTD. Since the issue did not affect the ICAP rate, the rate was approved on February 15, 2008. Based on additional work performed subsequent to the initial audit we are issuing this revised report to include an additional finding. Our findings and recommendations are as follows:

### **Audit Finding 1**

The GGBHTD purchased two computer notebooks costing a total of \$10,382.43. The GGBHTD's policies define the capitalization threshold for purchases of equipment to be \$5,000. However, the district did not capitalize the computer notebooks; but instead expensed the purchases. By expensing the purchases the cost is included in the actual indirect costs incurred by GGBHTD, thereby inappropriately overstating its actual indirect costs for the fiscal year the costs were incurred.

OMB A-87 Attachment B(19)(a):

*(2) "Equipment" means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals the lesser of (a) the capitalization level established by the government unit for financial statement purposes, or (b) \$5,000.*

### **Recommendation**

The GGBHTD should enforce their capitalization policy as well as the requirements of OMB A-87, and capitalize equipment costing more than \$5,000.

### **Auditee's Response**

The two items that were uncovered by the audit are isolated exceptions.

### **Analysis of Response**

The Auditee's response did not provide any information that would change the finding.

### **Audit Finding 2**

During our testing of a sample invoice it was noted that GGBHTD paid their contractor, HNTB Corporation, a 2.5% administration fee to process their subconsultants invoices under project RPSTPL-6003 (010). This administration fee is in addition to HNTB's proposed overhead costs. We requested and received from GGBHTD the original contract and the ninth amendment between GGBHTD and HNTB Corporation. We performed a limited review of the contract language and cost proposal and determined that the 2.5% administration fee was approved by GGBHTD in the ninth amendment. According to 49 CFR 18.20 (b)(6) *"Source Documentation. Accounting records must be supported by such documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."* GGBHTD could not provide source documentation to support the 2.5% administration fee billed by the contractor HNTB. Therefore, the unsupported 2.5% administration fee is unallowable.

The contract language in the ninth amendment allows for a "contingency budget amount of \$60,000." Contingencies as described in CFR 48 Chapter 1, Part 31.205-7(c)(2) *"Those that may arise from presently known or unknown conditions, the effect of which cannot be measured so precisely as to provide equitable results to the contractor and to the Government; e.g., results of pending litigation. Contingencies of this category are to be excluded from cost estimates under the several items of cost, but should be disclosed separately (including the basis upon which the contingency is computed) to facilitate the negotiation of appropriate contractual coverage."*

In addition, the 2.5% administration fee was applied to the contingency fee in the cost proposal.

#### **Recommendation**

GGBHTD should review all invoices previously billed to the Department on all its contracts with the Department for unallowable costs. All costs identified as unallowable should be reimbursed to the Department. We determined that as of March 31, 2006, GGBHTD billed \$72,072.84 in unallowable administration costs under project RPSTPL-6003(010) related to the 2.5% administrative fee. GGBHTD should remit the \$72,072.84 in unallowable 2.5% administration fee costs paid to HNTB Corporation and any other identified unallowable costs, to the Department.

GGBHTD should ensure that all future contracts and amendments exclude contingencies from cost proposals and ensure that they are in compliance with 49 CFR 18 and 48 CFR Chapter 1 Part 31.

#### **Auditee's Response**

GGBHTD negotiated three separate rates with the contractor. One rate is for employees working at the job site, another (higher rate) is for employees working at the contractor's offices, and the third rate is applied only to sub-consultants invoices and is for costs associated with paying those invoices. Because most of the labor occurred at the job site, GGBHTD was charged the lower overhead rate and the sub-consultant admin rate. GGBHTD views this as a cost savings because they were not billed the higher rate. GGBHTD also points out that this approach is consistent with Caltrans' practice of paying construction contractors for processing invoices from subcontractors on extra work.

GGBHTD had a pre-award audit of HNTB Corporation's cost proposal for construction management services on Phase II of the Golden Gate Bridge Seismic Retrofit dated September 22, 2000. The negotiated overhead structure, consisting of the three separate overhead markups, was accepted by the pre-award audit. The pre-award audit report is attached.

GGBHTD has advice from their legal representation that the contingencies should appropriately be disclosed in cost proposals. "That the contingency had a firm price of \$60,000 supports the characterization of the contingency as "foreseeable with reasonable accuracy." id. Therefore, according to FAR 31.205-7(c)(1), the price of the HNTB contingency should have (and was) included in the estimates of future costs."

#### **Analysis of Response**

The costs included in the consultant 2.5% administration fee have already been accounted for in the overhead rates. The contract between GGBHTD and HNTB stipulates that the overhead rates to be charged will be the current year audited rates. This relates to HNTB's overhead rates audited by its CPA. A&I compared the overhead rate for employees working at the job site and the (higher rate) for employees working at the contractor's offices to the CPA audited rates to see if they were discounted. We did not find that the overhead rates negotiated by GGBHTD were less than HNTB's CPA audited overhead rates. Additionally, the rates were consistent with the rates used for the same period on our Department contracts with HNTB. Therefore, the 2.5% administrative fee is unsupported. Also, the statement that this approach is consistent with

Caltrans' practice of paying construction contractors for processing invoices from subcontractors on extra work, does not apply to this contract. The section quoted in Caltrans Standard Specifications relates only to extra work on construction contracts. This contract is for construction management.

A&I did not perform the preaward audit. Instead, GGBHTD internal auditors performed the audit which does not address the 2.5% administration fee. Auditee's response was not adequate to resolve the audit finding, therefore, the audit finding remains unchanged.

The California Department of Transportation's interpretation of the 48 CFR Chapter 1 Part 31 does not allow contingencies on any projects that it administers. Therefore, the audit finding remains unchanged.

This report is intended solely for the information of the GGBHTD, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Allocation Plan for your files. Copies were sent to the Department's District 04, the Department's Division of Accounting and the FHWA. This report replaces the previous report issued by our office on February 15, 2008. If you have any questions, please contact Kesh Braeger at (916) 323-7886.

  
MARYANN CAMPBELL-SMITH  
Chief External Audits

#### Attachments

C: Brenda Bryant, FHWA  
Gary Buckhamer, Division of Accounting  
Muhaned Aljabiry, District 4

March 21, 2008



Mr. Keshava Braeger  
Associate Management Auditor  
Audits & Investigations  
Department of Transportation  
1340 O Street, Ste. 200  
PO Box 942874 – MS 2  
Sacramento, CA 94274-0001

Golden Gate Bridge  
Seismic Retrofit Phase II  
Construction Management and  
Inspection Support Services

**Re: GGBHTD Indirect Cost Allocation Program (ICAP) Audit - Phase II Project  
Construction Management Consultant (HNTB Corporation) Contract**

Dear Mr. Braeger:

This is to follow up on our telephone conference regarding the three issues concerning your review of HNTB Corporation's contract with the GGBHTD for the above-referenced professional services presented in your email of January 29, 2008.

In December 2000, a pre-award audit of the subject contract was conducted in conformance with Caltrans LLP 00-03 and subsequently accepted by Caltrans Audits and Investigations. Enclosed are the following pre-award audit related documents:

- April 26, 2000, GGBHTD Interoffice Memorandum requesting the pre-award audit.
- September 22, 2000, Internal Audit Report 2000-7 of HNTB's Phase II project cost proposal.
- December 19, 2000 email from Maura Twomey of Caltrans Audits and Investigations
- December 29, 2000 email from Al Hodson of Caltrans-District 4 Local Assistance

In addition, we offer the following explanation regarding the three issues:

1. 2.5% Overhead Markup on Subconsultants. The January 29 e-mail stated:

*"The contract amendment included an additional 2.5% administration fee for HNTB to process the sub-contractor's invoices. This administration fee is in addition to HNTB's proposed overhead costs. The GGBHTD could not provide source documentation to support the 2.5% administration fee claimed as an actual direct cost by HNTB Corporation."*

The 2.5% administration fee, referred in the January 29 email, represents Subconsultant Administrative Overhead rate, one of three separate overhead rates set under the Golden Gate Bridge, Highway and Transportation District's (Bridge District) Seismic Retrofit Phase II construction management and inspection support services contract with HNTB

Corporation (the Ninth Amendment). The negotiated overhead structure, consisting of the three separate overhead markups, was accepted by the pre-award audit. Please note that this overhead structure resulted in significant cost savings for the Phase II project; the total administrative overhead charges on subconsultants are about \$80,000, while the savings resulting from using the Discounted Direct Labor Overhead rate exceed \$1,200,000.

The three rates are applied to distinct and separate tasks and these three rates are mutually exclusive of each other:

- i. Discounted Direct Labor Overhead (the current audited overhead rate is 2.1447); this rate is applied to the direct labor rates of HNTB employees working at the Phase II project construction site.
- ii. Subconsultant Administrative Overhead rate (contractually-specified rate is 0.025) applied to gross subconsultant invoices to compensate for the overhead costs of reviewing and processing subconsultant invoices and prime consultant's liability insurance coverage costs resulting from the prime consultant's responsibility for subconsultants' performance under the contract with the Bridge District.
- iii. Full Direct Labor Overhead (the current audited full overhead is 2.5613); this rate is applied to the direct labor rates of HNTB employees working at HNTB offices performing CPM schedule analyses and other special technical reviews of the construction work plans and schedules; no direct labor charges have been billed for preparing or processing invoices.

The Discounted Direct Labor Overhead rate excludes many business expenses that are part of the Full Direct Labor Overhead rate; one type of the excluded expenses is administrative overhead related to subconsultants. Over 90% of HNTB's labor costs have been charged using the Discounted Direct Labor Overhead rate. This has resulted in a substantially lower amount paid by the District to HNTB over the duration of the consultant's contract with the Bridge District (e.g., the saving to the District is approximately \$40,000 on every \$100,000 of unburdened labor costs for HNTB employees working at the Golden Gate Bridge or \$1,200,000 on \$3,000,000 of unburdened labor costs for HNTB employees working at the Phase II project construction site).

The Phase II construction management and inspection support services contract's "Scope of Work" includes substantial amounts of specialized work, which was best performed by subconsultants (e.g. hazardous-materials consulting, materials quality assurance testing, construction surveying services, etc.) Also, the contract's DBE provisions required HNTB to engage subconsultants. Normally, prime consultant's administrative costs related to subconsultants are covered by a prime consultant charging the Full Direct Labor Overhead rate on its labor. However, for the Phase II contract, 90% of the HNTB's direct labor has been billed with the Discounted Direct Labor Overhead rate, which merely covers the overhead costs associated with the direct labor for HNTB's field personnel and does not provide the reimbursement for HNTB's administrative overhead costs associated with subconsultants. The Bridge District recognized this fact as well as the need to

encourage the use of subconsultants and small businesses. Hence, the District contractually agreed to compensate HNTB for HNTB's subconsultant administrative overhead expenses, resulting from checking and processing subconsultant invoices and increased insurance costs, by applying a Subconsultant Markup rate of 0.025 (2.5%) on the gross subconsultant invoices. Please note that this approach is consistent with Caltrans' practice of paying construction contractors for processing invoices from subcontractors on extra work. ***Caltrans Standard Specifications*** Section 9-1.03A provides that Caltrans pay prime contractors 5% markup on the gross cost of subcontractors work to compensate the prime contractor for their administrative costs associated with subcontractors. Bridge District's contract with HNTB is analogous in applying a markup to subcontractors, albeit at a lower rate.

2. \$60,000 Contingency Budget. The January 29 e-mail stated:

*"The contract language in the ninth amendment allows for a "contingency budget of \$60,000." General contingencies are unallowed per CFR 48 Chapter 1, Part 31. In addition, the 2.5% administrative fee was applied to the contingency fee in the cost proposal."*

We have obtained a review of the referenced regulation from the Bridge District Legal Counsel's office (see **enclosed Memorandum from Madeline Chun and Julie Sherman, attorneys of Hanson Bridgett LLP**). This legal review concludes that the \$60,000 contingency, referenced in the January 29 email, represents a future contingency conforming to FAR 31.205-7(c)(1) and is an allowable and reimbursable cost.

Furthermore, the HNTB contract provides for a detailed process to obtain prior District approval to expend a contingency. Section 14, "Compensation," of the Agreement provides for payment for services based on "actual allowable incurred cost, plus a fixed fee." The Consultant is compensated only for services that are authorized by the Agreement and described in Section 2, "Scope of Services." Any deviations from the scope of services, or expenditures in excess of the budgeted costs by listed work task, require the prior written approval of the District, as set forth in Section 7, "Changes," of the Agreement. This process was applied to the \$60,000 contingency.

3. Section 18.36 of CFR49. The January 29 e-mail stated:

*"Based on our review of the original contract and subsequent amendments, we found the procurement may have not been conducted in a manner providing full and open competition consistent with standards of section 18.36 CFR49. (...)"*

It is our understanding the this issue has been resolved based on information provided during our telephone conference and the subsequently sent copy of FHWA's approval of the public interest finding for the sole source procurement of HNTB Corporation services for the Phase II construction management support (**enclosed with this letter for ease of reference is March 23, 2000, letter from Nancy Bobb of FHWA.**) In summary, the



Mr. Keshava Braeger

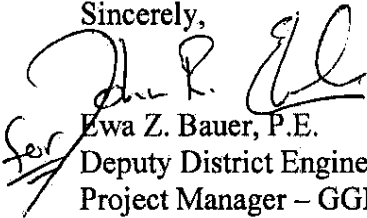
March 21, 2008

Page 4 of 4

original contract and its first eight amendments covered the construction management and inspection services for the Golden Gate Bridge Seismic Retrofit Phase I project, which was funded with 100% Bridge District funds (no federal funding). With FHWA advanced approval, the Ninth Amendment added the Phase II services to this contract.

We trust that the above explanation provides for resolution of the three issues listed in your January 29, 2008 email and will result in findings that the 2.5% Subconsultant Administrative Overhead markup and \$60,000 contingency expenditures are federally reimbursable costs and the procurement of HNTB Phase II construction management services complied with CFR49 rules.

Sincerely,

  
Ewa Z. Bauer, P.E.

Deputy District Engineer

Project Manager – GGB Seismic Retrofit

EZB/JRE/gm

Enclosures

---

**Golden Gate Bridge, Highway and Transportation District**  
**Indirect Cost Plan**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the Golden Gate Bridge, Highway and Transportation District (GGBHTD) and approved by the Department.

**SECTION 1: Rates**

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Fixed with carry forward	FY 06/07	119%	Engineering Department

\* Base: Total Direct Salaries and Wages plus fringe benefits

**SECTION II: General Provisions**

**A. Limitations:**

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

**B. Accounting Changes:**

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

**C. Fixed Rate with Carry Forward:**

The fixed rate used in this Agreement is based on estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audit financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

---

**D. Audit Adjustments:**

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

**E. Use by Other Federal Agencies:**

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

**F. Other:**

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

**G. Rate of Calculation:**

FY 2007 Budgeted Indirect Costs	\$2,947,695
Carry Forward from FY 2006	_____ -
Estimated FY 2007 Indirect Costs	\$2,947,695
FY 2007 Budgeted Direct Salaries and Wages plus Fringe Benefits	\$2,478,713
FY 2007 Indirect Cost Rate	119%

**CERTIFICATION OF INDIRECT COSTS**

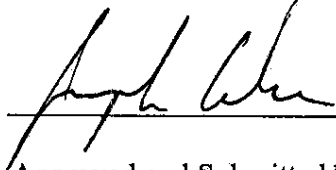
This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2007 (July 1, 2006 to June 30, 2007) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

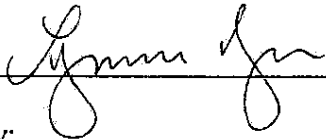
Governmental Unit: Golden Gate Bridge, Highway and Transportation District

Signature:   
Reviewed, Approved and Submitted by:

Name of Official: Joseph M. Wire

Title: Auditor-Controller

Date of Execution: October 23, 2006

Signature:   
Prepared by:

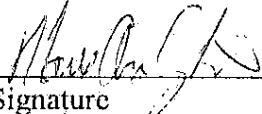
Name of Official: Lynne Yu

Title: Capital and Grant Programs Analyst

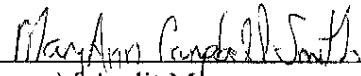
Telephone No.: (415) 923-2206

#### INDIRECT COST RATE APPROVAL

The Department has reviewed this indirect cost plan and hereby approves the plan.

  
Signature

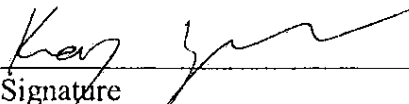
Reviewed and Approved by:

  
Name of Audit Manager

Title: Chief, External Audits

Date: 2/15/08

Phone Number: 916 323-7105

  
Signature

Reviewed and Approved by:

  
Name of Auditor

Title: Associate Management Auditor

Date: 2/15/08

Phone Number: 916-323-7886



June 22, 2007

Mr. Kesh Braeger, Associate Management Auditor  
Department of Transportation  
Audits & Investigations MS-2  
Subject: Response to Audit Finding re Golden Gate Bridge, Highway and Transportation District  
Cost Allocation Plan Audit

The District has established policies and procedures to ensure that purchases in excess of \$5,000 and meet the definition of "equipment" (as defined by OMB A-87) are capitalized. The threshold is included in the District's internal capitalization policy; in fact, the District programs its electronic Purchase Order approval system such that items of \$5,000 or more are routed to the Capital and Grants Office for scrutiny and review.

The District makes every attempt to be in compliance with the parameters established in OMB A-87 and, as referred to above, utilizes internal programming to capture items that may qualify to be capitalized. The two items uncovered by the audit are isolated exceptions that appeared on one purchase order. Each item was broken out into smaller components (each costing less than \$5,000) in order to assist the vendor in fulfilling the order. On a consolidated basis, each item costs \$5,191.22. In addition, the two items on this Purchase Order relate to personal computers. The District typically expenses personal computers (most notebook computers are less than \$3,000). These particular notebooks are categorized as "rugged" such that they stand up to extreme wear. Nevertheless, the "internal processing" life of a notebook is not any longer than that of a standard notebook. The District accountant assigned to reviewing this item did not suggest capitalizing this due to the fact that PC's at the District are normally expensed, and was applying a consistency manner typically applied to notebook PC's.

The District will continue its efforts to capitalize whenever necessary.

A handwritten signature in black ink, appearing to read "Bette Joe", with a horizontal line underneath it.

Bette Joe, Accounting Manager